

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND)
at Press Conference Reacting to President Obama's FY 2010 Budget
February 26, 2009**

Today we received a budget blueprint from President Obama. I would describe it as a good beginning.

I think President Obama is going in the right direction by cutting the deficit in half over the next five years -- in fact, cutting it by more than half over that period -- and in making very important investments for our country's economic future, in reducing our dependence on foreign energy, in improving excellence in education, and reforming health care.

With all of that said, I think he himself has acknowledged that we've got to do more about the debt build-up that will occur over the following years. And so I think that becomes one of our significant ongoing challenges. It confirms for me the necessity of doing something like Senator Gregg and I have proposed, a special procedure to take on the long-term imbalances that exist in our fiscal future.

I think all of us know how we got here. We have had a dramatic deterioration in the budget picture under the Bush administration, taking us from budget surpluses that we had during the Clinton years to record deficits under President Bush, ending with the budget that this President is inheriting that started off as a \$1.3 trillion hole that now has been increased by the stimulus package.

But nonetheless, this President inherited a fiscal mess of staggering proportion. We see that the debt that President Bush is responsible for more than doubled from \$5.8 trillion at the end of his first year. This is according to our consistent practice -- we've never held him responsible for the first year of his administration, because he inherits that budget from the previous administration. But the eight years that he's responsible for will see the debt growing to \$12.7 trillion, more than doubling during that period.

President Obama is inheriting record deficits, a doubling of the national debt, the worst recession since the Great Depression, financial market and housing crises almost unprecedented in our nation's history, two-and-a-half million jobs lost in just the last five months, and ongoing wars in Iraq and Afghanistan.

I have often thought what it must be like to be President Obama and go to work every morning facing this incredible constellation of crises. But he has already taken significant actions, passing an economic recovery package, presenting plans to address both the financial and housing crises, and holding a fiscal responsibility summit to focus on the need to address our long-term imbalances.

At that conference, Mr. Greenstein said in the opening remarks that we're on an unsustainable course as a country and that, if nothing is done, 40 years from now, we will have a debt that is 300 percent of our gross domestic product. That simply cannot be allowed to happen.

The Obama budget has these virtues, as I see it, the key improvements over the Bush budgets: more transparency, accounting for the war cost in the budget rather than as emergency designations; better priorities, key investments, as I indicated, in energy, education, and health care; and cutting the deficit in half.

These are, as you see, the deficit numbers year by year. Cutting it in half would be this dotted line, so you can see President Obama's budget does somewhat better than cutting the deficit in half over the first five years. And that's to be commended.

On the other hand, our long-term circumstance remains very, very serious. This is what the Congressional Budget Office is showing us is their long-term budget outlook. And, while I quoted Mr. Greenstein saying he saw the debt soaring to 300 percent of GDP over the next 40 years, if we take a little longer look, as CBO has done, we see the debt going to 400 percent of gross domestic product.

That's why I believe it is critically necessary that we find some special process for dealing with it. And President Obama has acknowledged the need for further action to address the long-term fiscal imbalances. He said, and I quote, "Now, I want to be very clear. While we are making important progress towards fiscal responsibility this year in this budget, this is just the beginning. In the coming years, we'll be forced to make more tough choices and do much more to address our long-term challenges." Amen to that. The President has got it exactly right.

One other thing I wanted to address, I understand when our friends on the other side of the aisle were out describing this budget, they talk about massive tax increases. If you look at the scoring of this budget that would be done by the nonpartisan Congressional Budget Office, what you see is, on a net basis, there are substantial tax reductions here.

How can that be? How can the stories be so very different? Well, because one includes just part of the story. They have left out the extension of the 2001 and 2003 tax cuts. That is, according to CBO scoring, \$2 trillion of additional tax relief. "Make Work Pay" and other provisions for individuals and businesses -- another \$940 billion. The AMT relief -- another \$576 billion of tax relief. Again, this is how CBO would score the tax provisions. And then, on the other side of the ledger, the "Cap and Trade" provisions, the loophole closures and the international reforms, the high-end tax provisions, the limited itemized deductions, and you rack all that up, and the net result is tax reductions of \$2.2 trillion.

That, I think, is a more accurate reflection of what is really happening in this budget. Yes, there are increases in taxes on those who are at the high end. Yes, there are the "Cap and Trade" provisions. But there are also the things that the other side is not counting at all, the alternative minimum tax relief, the extension of the 2001 and 2003 tax cuts, as well as the estate tax provisions, and, of course, "Make Work Pay."

When you put it all together, the fact is, what I think is the most accurate statement about this budget is that there are \$2 trillion of tax relief contained in the President's proposal.

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Questions and Answers:

Question: I am wondering if there are particular items in here that you have concerns about or that you would like to see changed...?

Answer:

I would be especially focused on the second five years. Chairman Spratt has just said what is very much in my thinking, as well. Getting down to 3 percent of GDP in the first five years is a good accomplishment, but I would like to see then further progress made in the second five years. That is going to take fundamental changes in the larger fiscal picture. That is why I thought the fiscal summit the other day was important, why I think some special procedure, like Senator Gregg and I have proposed, needs to be considered.

Question: (Sen.) Gregg and (Rep.) Ryan talked a little bit about they've seen some willingness to work on Social Security especially after Monday's (summit). Was it a tactical mistake for Obama to go for this down payment on health care reform versus something more concrete on Social Security as a way to show things can get done?

Answer:

You know, I am no tactical genius, so I don't know if I'm somebody to comment on tactics. In terms of substance, I believe what I've stated here earlier. I think it is critically important that, just as the fiscal responsibility summit called for, we've got to make much more dramatic progress in the out years, in that second five years, on getting us back on a more sound fiscal footing. And that means we have got to address entitlements; we have got to address the revenue base. My own belief is the revenue system of the country has got to be fundamentally reformed. It is just out of date. It was largely written 40 and 50 years ago, and it no longer deals with the world we live in today.

Question: With the the tax cuts for the middle-class being extended under Obama's budget and with what you've just shown us, couldn't an argument be made that those tax cuts should be expired, as well?

Answer:

Well, I don't think it would be wise to expire the middle-class tax cuts. I do think it further indicates the need for thoroughgoing reform. If you think about it, our current rates are sufficiently high if the money was actually collected to eliminate the structural deficit. The problem is, this current revenue system is hemorrhaging money. How? In these offshore tax havens, these abusive tax shelters. In just those two areas alone, the Permanent Subcommittee on Investigations says we are losing \$125 billion or more a year. Then, on top of that, we have the tax gap, money that is owed that's not being paid over. So my conclusion is we have got a tax system that has to be fundamentally altered, reformed, improved, modernized.

Question: In his budget, President Obama doesn't propose paying for the AMT or for extending middle-class tax cuts, which seems to be different from what you have been saying the past few

years. Do you think extending those should be offset?

Answer:

I believe extending the alternative minimum tax past the next couple of years should be offset. And I have taken that position consistently. I don't think it should be offset at this time of severe economic weakness. I think that would be counterproductive. But beyond the next couple of years, when we are now seeing forecasts from CBO and OMB of economic recovery, at that point, I think it should be offset.

But let me back up and indicate to you, my own vision of what should be done is to pursue not only reform of the entitlements, but reform of the revenue system. There is just too much leakage in this system. And beyond that, it does not position us well to compete in a globalized world economy.

You know, our tax system was devised at a time when America was totally dominant economically. We didn't have to worry about competing. Now we do. And I think if you were to devise a tax revenue system today, you would devise one that was focused on savings and investment, because you have got to have savings to have investment, and you've got to have investment to have economic growth. And our system is not devised for that at all.

Question: On the President's budget, the other night before the Joint Session, he called for sacrifices. He talked about hard choices. Give me one specific example in this budget of where he is asking the American people to sacrifice and make a hard choice.

Answer:

Well, if you go into the budget detail -- which you don't have before you today, but we have -- which we have been getting some early indications on, you will see plenty of places where programs are being cut, some of them eliminated. I would direct you, first, to a place where I have a special sensitivity, which is agriculture. And I'll tell you, 20 percent of the farmers in my state under this budget plan would suffer some significant reductions. So you're going to find lots of places where tough choices have been made to reduce and, in some cases, eliminate programs entirely.

Question: Can you give me some other examples?

Answer:

Well, you had your bite at the apple, and I gave you your answer.

Question: Why can't you give me an example?

Answer:

I gave you an example. Look, go look in the agricultural line item. You'll find four places where there are specific cuts, and we'd be happy to provide them to you. Direct payments is the one I was referencing. Direct payments are being cut completely for those over a certain gross revenue threshold, not income threshold, gross revenue threshold.

Question: Does the \$646 billion figure for cap and trade over the 10 years, does that strike you as likely? And what would happen if the cap and trade bill didn't get through, what would happen to the budget bottom line?

Answer:

First of all, how one sets that up would indicate what would happen to it. If it was in a reserve fund, it would only be triggered if the cap and trade legislation actually advanced. The prospects for that, I think, are very dependent on the details, and we don't have the details before us.

Question: Paul Ryan said yesterday that he expects you to include a reconciliation instructions, maybe even small ones to take care of cap and trade and health care. I'm wondering if that's something that you're seriously considering or if you're just talking about reserve funds, as you mentioned earlier?

Answer:

No decisions have been made on reconciliation. We've got to go through a lengthy consultation process with our colleagues and determine the best course. As you know, I've resisted use of reconciliation in some of the major items where it's been argued that we ought to use it, notably health care reform and global climate change legislation, but no final decision has been made.

Let me also indicate that, as you know, there is provision for a second resolution, which, if reconciliation wasn't used on the first resolution, it's conceivable later in the year you could have a second.

Let me go back to your question, because maybe I wasn't completely fair to you. You know, cuts in agriculture are pretty sensitive, so that's the first thing that came to my mind. As you can imagine, \$16 billion in cuts, and we just passed a farm bill that was completely paid for, so the suggestion that there aren't cuts here, very sensitive in the constituency that I serve.

But Chairman Spratt went on to other things. You know, Medicare Advantage, you're talking very significant savings in this budget in that area. In terms of the student loan, very significant savings. And we have also not received, as you know, in this budget document the fuller details of savings that the administration anticipates in other areas. So although we've been consulted and informed of certain areas, I'm not at liberty at this moment to talk about those.